

# PERAC AUDIT REPORT



Winchester

Contributory Retirement System



JAN. 1, 2007 - DEC. 31, 2009



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*


August 11, 2010

The Public Employee Retirement Administration Commission has completed an examination of the Winchester Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2007 to December 31, 2009. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Carol M. Niemira who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **1. Investment Approval**

The Winchester Retirement System initiated its investment in SSGA International Alpha Select Securities Lending Fund in December 2008, as a consequence of the closing of SSGA's Tactical Allocation International Equity Fund. Funds were rolled over from the latter prior to submitting and receiving notice from PERAC's Investment Director that all required regulatory documents had been received. Proper paperwork was submitted after investment, and PERAC issued an approval March 16, 2009.

**Recommendation:** Winchester must comply with PERAC's Investment Regulation 840 CMR 16.08. Written acknowledgement from PERAC is required before funding any new investment. PERAC Memorandum #12/2005 dated March 7, 2005 entitled "Overview of Investment Regulations Issues" provides explicit guidance on this issue.

### **Board Response**

Winchester will comply with PERAC's Investment Regulation 840 CMR 16.08.

## **2. Annuity Savings Fund**

The Annuity Savings Fund (ASF) balance did not agree with the Supplementary Membership Schedule for 2009 by \$2,016.16. This was due to an incorrect adjustment to the Schedule for a member's buyback and a transfer from the Pension Reserve Fund (PRF) slightly in excess of the amount necessary to re-establish an inactive member's account.

**Recommendation:** Supplementary Membership Schedule totals should be compared to general ledger balances and any discrepancies resolved before filing the Annual Statement. An adjustment must be made to the Supplementary Membership Schedule for the member whose account is overstated to correct the error. Also, an adjusting journal entry must be made to the ASF (debit ASF, credit PRF in the amount of \$205.80) to transfer the overage back to the Pension Reserve Fund and bring the general ledger into agreement with the corrected Supplementary Membership Schedule.

### **Board Response**

Two journal entries were posted in the month of May 2010 to correct the Member's Supplemental Schedule. The auditor's recommendations were followed and completed.

## **FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2009	2008	2007
<b>Net Assets Available For Benefits:</b>			
Cash	\$6,917,241	\$9,970,534	\$10,729,722
Equities	0	2,742,536	4,478,979
Pooled Domestic Equity Funds	9,385,775	3,166,183	5,019,818
Pooled Global Equity Funds	25,038,922	17,754,345	34,550,700
Pooled Domestic Fixed Income Funds	13,196,568	11,190,300	11,858,859
Pooled Alternative Investment Funds	3,740,586	3,329,934	4,109,943
Pooled Real Estate Funds	1,891,000	2,491,484	3,409,078
PRIT Cash Fund	0	0	0
PRIT Core Fund	15,226,703	13,631,597	14,405,829
Interest Due and Accrued	702	11,717	43,369
Accounts Receivable	3,099	77,130	26,776
Accounts Payable	(9,433)	(61)	(80,775)
<b>Total</b>	<u>\$75,391,163</u>	<u>\$64,365,698</u>	<u>\$88,552,299</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$17,211,412	\$16,377,254	\$15,553,699
Annuity Reserve Fund	5,243,604	5,025,660	4,980,304
Pension Fund	1,166,327	1,133,146	1,026,349
Military Service Fund	6,202	6,171	6,134
Expense Fund	0	0	0
Pension Reserve Fund	51,763,618	41,823,467	66,985,812
<b>Total</b>	<u>\$75,391,163</u>	<u>\$64,365,698</u>	<u>\$88,552,299</u>

## STATEMENT OF CHANGES IN FUND BALANCES

Beginning Balance ( 2007)

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2007)	\$14,615,453	\$4,980,732	\$1,127,967	\$6,098	\$0	\$60,144,148	\$80,874,398
Receipts	1,684,006	140,060	3,478,641	36	438,329	8,018,499	13,759,571
Interfund Transfers	(549,925)	549,920	1,176,840	0	0	(1,176,835)	0
Disbursements	(195,835)	(690,407)	(4,757,099)	0	(438,329)	0	(6,081,670)
Ending Balance (2007)	15,553,699	4,980,304	1,026,349	6,134	0	66,985,812	88,552,299
Receipts	1,884,238	149,935	3,593,759	37	482,203	(23,841,514)	(17,731,343)
Interfund Transfers	(706,824)	643,087	1,384,568	0	0	(1,320,831)	0
Disbursements	(353,859)	(747,666)	(4,871,530)	0	(482,203)	0	(6,455,258)
Ending Balance (2008)	16,377,254	5,025,660	1,133,146	6,171	0	41,823,467	64,365,698
Receipts	1,797,921	151,401	3,693,281	31	254,635	11,342,208	17,239,477
Interfund Transfers	(811,552)	852,917	1,360,692	0	0	(1,402,058)	0
Disbursements	(152,212)	(786,374)	(5,020,792)	0	(254,635)	0	(6,214,013)
Ending Balance (2009)	<u>\$17,211,412</u>	<u>\$5,243,604</u>	<u>\$1,166,327</u>	<u>\$6,202</u>	<u>\$0</u>	<u>\$51,763,618</u>	<u>\$75,391,163</u>

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
<b>Annuity Savings Fund:</b>			
Members Deductions	\$1,587,910	\$1,533,888	\$1,476,185
Transfers from Other Systems	112,020	233,676	88,837
Member Make Up Payments and Re-deposits	18,370	27,450	35,842
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	<u>79,620</u>	<u>89,223</u>	<u>83,141</u>
Sub Total	<u>1,797,921</u>	<u>1,884,238</u>	<u>1,684,006</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>151,401</u>	<u>149,935</u>	<u>140,060</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	197,694	190,227	177,326
Pension Fund Appropriation	<u>171,795</u>	<u>175,988</u>	<u>201,314</u>
Sub Total	<u>3,323,793</u>	<u>3,227,543</u>	<u>3,100,000</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>31</u>	<u>37</u>	<u>36</u>
Sub Total	<u>31</u>	<u>37</u>	<u>36</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	58,232
Investment Income Credited to the Expense Fund	<u>254,635</u>	<u>482,203</u>	<u>380,097</u>
Sub Total	<u>254,635</u>	<u>482,203</u>	<u>438,329</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	515	2,900	0
Miscellaneous Income	2,808	(66)	23
Excess Investment Income (Loss)	<u>11,338,885</u>	<u>(23,844,348)</u>	<u>8,018,477</u>
Sub Total	<u>11,342,208</u>	<u>(23,841,514)</u>	<u>8,018,499</u>
<b>Total Receipts, Net</b>	<u>\$17,239,477</u>	<u>(\$17,731,343)</u>	<u>\$13,759,571</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2009	2008	2007
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$105,354	\$90,309	\$92,667
Transfers to Other Systems	46,858	263,550	103,168
Sub Total	<u>152,212</u>	<u>353,859</u>	<u>195,835</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	786,374	737,335	690,407
Option B Refunds	0	10,331	0
Sub Total	<u>786,374</u>	<u>747,666</u>	<u>690,407</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	2,964,055	2,933,817	2,865,517
Survivorship Payments	546,056	516,835	497,991
Ordinary Disability Payments	41,464	40,435	39,923
Accidental Disability Payments	789,804	774,463	749,621
Accidental Death Payments	363,403	377,042	372,002
Section 101 Benefits	22,956	22,288	18,926
3 (8) (c) Reimbursements to Other Systems	172,556	126,122	131,246
State Reimbursable COLA's Paid	120,499	80,529	81,873
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	<u>5,020,792</u>	<u>4,871,530</u>	<u>4,757,099</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	0	0	0
<b>Expense Fund:</b>			
Board Member Stipend (See Note #2, page 18)	0	0	4,750
Salaries (See Note #2, page 18)	0	0	55,158
Legal Expenses	0	2,900	0
Travel Expenses	203	645	0
Administrative Expenses	1,270	230	6,012
Education and Training	500	0	0
Furniture and Equipment	936	0	0
Management Fees	202,559	394,982	306,002
Custodial Fees	45,140	49,389	48,190
Consultant Fees	0	0	0
Service Contracts	0	30,246	14,520
Fiduciary Insurance	4,028	3,811	3,696
Sub Total	<u>254,635</u>	<u>482,203</u>	<u>438,329</u>
<b>Total Disbursements</b>	<u>\$6,214,013</u>	<u>\$6,455,258</u>	<u>\$6,081,670</u>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
<b>Investment Income Received From:</b>			
Cash	\$53,232	\$279,527	\$445,803
Short Term Investments	0	0	0
Fixed Income	0	0	0
Equities	2,707	75,957	100,579
Pooled or Mutual Funds	1,444,200	1,849,450	1,652,632
Commission Recapture	0	0	0
<b>Total Investment Income</b>	<u>1,500,139</u>	<u>2,204,934</u>	<u>2,199,014</u>
<b>Plus:</b>			
Realized Gains	2,665,245	3,775,980	4,348,427
Unrealized Gains	15,783,690	8,900,371	11,067,149
Interest Due and Accrued - Current Year	<u>702</u>	<u>11,717</u>	<u>43,369</u>
Sub Total	<u>18,449,637</u>	<u>12,688,068</u>	<u>15,458,944</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(1,279,477)	(4,794,802)	(570,395)
Unrealized Loss	(6,834,009)	(33,177,782)	(8,432,691)
Interest Due and Accrued - Prior Year	<u>(11,717)</u>	<u>(43,369)</u>	<u>(33,060)</u>
Sub Total	<u>(8,125,203)</u>	<u>(38,015,953)</u>	<u>(9,036,147)</u>
<b>Net Investment Income (Loss)</b>	<u>11,824,572</u>	<u>(23,122,950)</u>	<u>8,621,812</u>
<b>Income Required:</b>			
Annuity Savings Fund	79,620	89,223	83,141
Annuity Reserve Fund	151,401	149,935	140,060
Military Service Fund	254,635	482,203	380,097
Expense Fund	<u>31</u>	<u>37</u>	<u>36</u>
<b>Total Income Required</b>	<u>485,687</u>	<u>721,398</u>	<u>603,335</u>
Net Investment Income (Loss)	<u>11,824,572</u>	<u>(23,122,950)</u>	<u>8,621,812</u>
Less: Total Income Required	<u>485,687</u>	<u>721,398</u>	<u>603,335</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$11,338,885</u>	<u>(\$23,844,348)</u>	<u>\$8,018,477</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2009		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$6,917,241	9.2%
Pooled Domestic Equity Funds	9,385,775	12.4%
Pooled Global Equity Funds	25,038,922	33.2%
Pooled Domestic Fixed Income Funds	13,196,568	17.5%
Pooled Alternative Investment Funds	3,740,586	5.0%
Pooled Real Estate Funds	1,891,000	2.5%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	<u>15,226,703</u>	<u>20.2%</u>
<b>Grand Total</b>	<b><u>\$75,396,795</u></b>	<b><u>100.0%</u></b>

For the year ending December 31, 2009, the rate of return for the investments of the Winchester Retirement System was 17.85%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Winchester Retirement System averaged 4.47%. For the 25-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Winchester Retirement System was 9.49%.

The composite rate of return for all retirement systems for the year ending December 31, 2009 was 18.22%. For the five-year period ending December 31, 2009, the composite rate of return for the investments of all retirement systems averaged 3.97%. For the 25-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.30%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Winchester Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

February 22, 2006

16.08

In accordance with Investment Guideline 99-2, the Winchester Retirement Board is authorized to make a modest modification to its equity management mandate with State Street Global Advisors. Currently, SSGA's asset allocation group has discretionary authority to manage about 30% of Winchester's total portfolio by investing in five of SSGA's domestic and international equity funds, all of which have been authorized by PERAC. The Board will now authorize SSGA to also invest opportunistically in SSGA's Real Asset Strategy, which is a fund-of-funds that invests in four index funds involving REITs, commodities, natural resource stocks, and TIPS. While investment in such a strategy would ordinarily require a separate search process, the Board feels that a search would not be productive because it is seeking to invest only opportunistically in this product, as opposed to having a permanent commitment, and since the typical position in this strategy will likely not exceed \$1 million. The Board has had a satisfactory relationship with SSGA and has carefully considered the merits of the Real Asset Strategy.

February 11, 2004

16.08

The Winchester Retirement Board is authorized to make a modification to their existing international equity mandate with State Street Global Advisors. The board's existing international equity funds are primarily invested in large-cap securities. In order to achieve greater diversification in its international equity holdings, the board intends to allocate a relatively small proportion of its international equity portfolio to SSGA's Active International Small Cap Securities Lending Common Trust Fund. The Board has had a satisfactory relationship with SSGA and its international equity team since 1998, and the fund being added has had a very strong performance record since its inception in 1997.

February 26, 2003

16.08

In accordance with Investment Guideline 99-2, the Winchester Retirement Board is authorized to invest in the SSGA International Alpha Fund. As part of its portfolio rebalancing, the Board is adding to its holdings in international equity. In accomplishing this, the Board is supplementing its current investment in the SSGA International Growth Opportunities Fund by initiating an investment in the SSGA International Alpha Fund. Both funds have an MSCI-EAFE benchmark, with the existing fund having a growth "tilt" and the Alpha Fund a "value" tilt. The Board has had a satisfactory experience with SSGA in international equity and benefits from the low management fees of SSGA's commingled funds.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

June 21, 2002

Notwithstanding the provisions of the Public Employee Retirement Administration Commission Regulations the Winchester Retirement Board may invest funds of the Winchester Retirement System (the "System") with the real estate investment fund known as Realty Associates Fund VI Corporation (the "Fund), and while the assets of the System are so invested,

(i) the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq., the System's interest in the Fund but not any of the underlying assets of the Fund or the operating partnership in which the Fund is invested (the "OP"); provided that, at all times, the Fund and the OP qualify as "venture capital operating companies" or "real estate operating companies" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated thereunder, or the assets of the Fund and the OP would not be treated as plan assets under ERISA; and

(ii) the limitation set forth in 840 CMR 19.01(6) shall be deemed satisfied if no single investment of the OP, valued at cost, exceeds 20% of the capital commitments to the Fund and the OP.

- I. The Winchester board may invest funds of the Town of Winchester Retirement System (the "System") with the real estate investment fund known as the Guggenheim Plus Real Estate Trust (the "Fund"), and while the assets of the System are so invested, the activities and the investments of the Fund and the affiliated and unaffiliated underlying funds and accounts in which the Fund invests, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended (ERISA), taking into account ERISA Section 408(b)(8), Prohibited Transaction Class Exemption 91-38, Prohibited Transaction Class Exemption 84-14, and 29 CFR § 2510.3-101.
2. The limitations and restrictions of 840 CMR Section 19.01(6) shall not apply to the Fund for the two-year period commencing on the date of the Fund's initial investment. For purposes of applying the limitation set forth in 840 CMR Section 19.01(6)(c), the Fund's investment in affiliated entities shall be treated as invested in the investments directly or indirectly held by these entities, pro rata based on the Fund's indirect net investment in each.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Winchester Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 105 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

#### **Group 1:**

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

### DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

**Retirement Allowance:** Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$708.60 per year (or \$312 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board closely monitor's the implementation and performance of their own investment strategy and their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

The Town of Winchester funded the stipends paid to the Board members and the Town Treasurer and also funded the Retirement Administrator's salary. These payments were in lieu of the System reimbursing the Town through the appropriation process. In prior years including 2007, these amounts were reported as disbursements appropriate for each category, through an Expense Fund Appropriation.

## NOTES TO FINANCIAL STATEMENTS (Continued)

Beginning in 2008, these activities have not been reflected in these financial statements. The rationale was that no transactions in fact were exchanged between the System and the Town. The Town actually funded stipends of \$6,000 each for the years 2008 and 2009 and funded the Administrator's salary of \$51,786 and \$53,864 in 2008 and 2009, respectively. These costs will be recovered either through reduced future appropriations or by accelerating the fully funded status of the defined benefit obligations of the retirement system.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Winchester Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

January 18, 2008

Effective November 29, 2007

- a. Any part-time employee who qualified for membership shall receive one year of creditable service provided that they work the hours required by their position and provided their entire service is on a part-time position.
- b. Subject to verification as specified by the Town any part-time employee who becomes full-time shall receive credit for their part-time service on a pro-rated basis as it relates to a full-time position.
- c. Subject to verification as specified by the Town any full-time employee who becomes part-time shall receive credit for their part-time service on a pro-rated basis as it relates to a full-time position.

December 28, 1984

Rules & Regulations

- Effective August 1, 1978, part-time employees must be employed for a minimum of twenty (20) hours per week in order to become members of the Town of Winchester Contributory Retirement System. Creditable Service will be accrued upon actual working hours based upon a minimum of twenty (20) hours per week and said minimum must be accrued upon a thirty-two (32) week year.
- Individuals whose employment consists of periods of part-time service shall have creditable service for the part-time portion pro-rated by the Board of Retirement. Periods of part-time service shall however, be fully creditable to the extent of full time service, provided that an employee's service is fully continuous, and further, that he has five- (5) years full time service. In such cases, the part-time service shall be credited as full time in an amount equal to full-time service with the balance prorated;
- Provisional, temporary, temporary provisional, seasonal or intermittent service of less than three (3) consecutive calendar months, for employees classified in Group I, shall not be considered creditable service unless a shorter period of time is immediately followed by permanent employment;

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

- If the Board of Retirement denies an application for a retirement allowance under the provision of M.G.L. c. 32, § 6, or 7, a similar application shall not be accepted within one (1) year from the date of denial unless:
  - 1) new evidence
  - 2) new incident
  - 3) aggravation of pre-existing condition ensues.

June 6, 2003

The Winchester Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulation available upon written request.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the Winchester Retirement System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2009.

The actuarial liability for active members was	\$46,708,241
The actuarial liability for vested terminated members was	1,199,514
The actuarial liability for non-vested terminated members was	460,808
The actuarial liability for retired members and survivors was	<u>49,009,329</u>
The total actuarial liability was	97,377,892
System assets as of that date were	<u>74,020,553</u>
The unfunded actuarial liability was	<u>\$23,357,339</u>
The ratio of system's assets to total actuarial liability was	76.0%
As of that date the total covered employee payroll was	\$16,879,293

The normal cost for employees on that date was 8.37% of payroll  
 The normal cost for the employer was 5.87% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum  
 Rate of Salary Increase: Service-based, with ultimate rates of 4.75%, 5.00%, and 5.25%  
for Groups 1, 2, and 4, respectively

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2009

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability* ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2009	\$74,020,553	\$97,377,892	\$23,357,339	76.0%	\$16,879,293	138.4%
1/1/2007	\$73,230,482	\$89,817,508	\$16,587,026	81.5%	\$15,863,491	104.6%
1/1/2005	\$62,508,562	\$82,704,690	\$20,196,128	75.6%	\$14,092,068	143.3%

\*excludes State reimbursed COLA

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Retirement in Past Years</b>										
Superannuation	13	18	2	9	2	8	7	3	7	11
Ordinary Disability	0	0	0	1	0	0	0	0	0	0
Accidental Disability	1	0	0	2	0	2	3	0	1	0
<b>Total Retirements</b>	14	18	2	12	2	10	10	3	8	11
Total Retirees, Beneficiaries and Survivors	319	328	321	313	319	307	300	304	287	287
Total Active Members	381	365	346	342	333	342	351	362	347	345
<b>Pension Payments</b>										
Superannuation	\$2,084,152	\$2,343,362	\$2,453,697	\$2,525,194	\$2,633,950	\$2,664,104	\$2,786,077	\$2,865,517	\$2,933,817	\$2,964,055
Survivor/Beneficiary Payments	269,968	359,121	325,636	384,373	418,228	467,724	480,746	497,991	516,835	546,056
Ordinary Disability	28,117	28,947	29,557	34,992	43,751	37,401	37,401	39,923	40,435	41,464
Accidental Disability	614,280	604,040	586,601	604,364	680,426	698,149	730,083	749,621	774,463	789,804
Other	<u>284,551</u>	<u>293,412</u>	<u>457,056</u>	<u>537,870</u>	<u>562,000</u>	<u>586,244</u>	<u>581,516</u>	<u>604,047</u>	<u>605,981</u>	<u>679,414</u>
<b>Total Payments for Year</b>	<u>\$3,281,067</u>	<u>\$3,628,881</u>	<u>\$3,852,546</u>	<u>\$4,086,793</u>	<u>\$4,338,355</u>	<u>\$4,453,623</u>	<u>\$4,615,823</u>	<u>\$4,757,099</u>	<u>\$4,871,530</u>	<u>\$5,020,792</u>

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